

The impact of tax uncertainty and joint provision of audit services on the aggressiveness of tax advice

ABSTRACT

We examine the impact of joint provision of audit and tax services on the aggressiveness of tax advice provided by experienced tax professionals. We find evidence that joint provision of audit and tax services are negatively associated with the aggressiveness of tax advice. Analysis suggests that tax professionals weigh the influence of tax uncertainty more in the presence of joint service provision, when determining the aggressiveness of tax advice. Additional evidence suggests that tax professionals are cognizant that providing aggressive tax advice in the presence of tax uncertainty may have negative impacts on the financial statement audit. Though tax professionals do not anticipate a difference in scrutiny or objectivity when the auditor is in their firm relative to when the auditor is from a different firm, they do demonstrate greater concern for the impact of aggressive tax advice on the audit when the auditor is in their firm. Collectively, our evidence provides evidence that joint provision of audit and non-audit services can have a significant impact on the provision of non-audit service providers in the same firm.

Keywords: Tax aggressiveness, Auditor, Tax advisor, independence, joint provision of services, tax advice

JEL Code:

1.0 INTRODUCTION

Prior studies have investigated how non-audit services impact the provision of audit services, however few prior studies have investigated how the joint provision of audit and tax services may impact the tax advice provided by tax practitioners (Frankel et al. 2002; Defond et al. 2002; Li 2009). Lisowsky et al. (2016) provide some evidence that using an auditor to provide tax compliance services are negatively correlated with the aggressiveness of the corporation's tax outcomes. However, the authors call for further research to investigate whether the decrease in aggressiveness is a result of tax advisors tailoring their advice when faced with the provision of both tax and audit services or a result of clients that choose their auditor for advice being more conservative in tax by nature. Put simply, it is an open question as to whether less tax aggressive firms choose to use their auditor for tax services or whether the tax advisors provide less tax aggressive advice when they are also the financial statement auditor. Using experienced tax practitioners and developing a strong instrument of tax uncertainty, we address this issue directly using experimental methods.

We provide evidence that when faced with tax uncertainty and a choice to advise the client to take a more or less aggressive tax position, professional tax advisors advise the corporate client to take a more aggressive tax position when the tax professional's firm is providing only tax services relative to when the tax professional's firm is providing joint tax and audit services to the same corporate client. Subsequent analysis provides insights that tax professionals are aware of the impacts that more aggressive tax advice may have on audit provision and modify their assessment of the impact of tax avoidance advice on client service when providing a basket of services relative to tax services alone. Additional evidence indicates that tax professionals will react to perceived tax uncertainty differently when providing joint tax and audit services relative to providing tax services alone. Specifically, perceived tax uncertainty has a more negative impact on tax avoidance advice when the tax professional's firm is also responsible for the financial statement audit. This result is consistent with

Lisowsky et al. (2016)'s discussion that tax uncertainty creates audit risks that would be borne by the joint service provision firm. Lastly, additional analysis confirms that while tax practitioners expect no difference in the objectivity or scrutiny of their tax positions whether the financial statement auditor is their firm or another firm, they do care more about placing the financial statement auditor in an awkward position by taking a more uncertain tax position when the financial statement auditor is in their firm.

Collectively, this evidence provides significant insights into the judgement and decision making of tax advisors when faced with tax uncertainty and the impact of joint audit and tax service provision on tax services. Our study is the first to provide insights into how the provision of audit services affects the provision of non-audit services. We provide consistent evidence that tax professionals consider the impact of their tax advice to not only maximize tax savings of the client but to minimize negative impacts on the provision of the audit. This is contrary to the behavior of audit professionals where our study provides useful insights in support of audit independence when joint services are provided.

Drawing on the unique perspective of the non-audit service provider directly, our evidence suggests that tax practitioners do not perceive a difference in scrutiny or objectivity of audit work when their firm or a different firm will do the audit work. This provides an important and unique perspective in support of prior studies that have found that provision of tax work does not impact the independence of auditors. Our study contributes to the early and growing literature on tax uncertainty by providing evidence that the impact of tax uncertainty on a tax professional's advice and ultimately tax outcomes is impacted by context-specific factors including joint service provision. We believe our results have important implications for policy makers as it suggests that the joint provision of audit and tax services. We believe that it provides useful insights for management when gauging tax advice from various sources including their auditor.

Section 2 discusses prior research and develops related hypotheses based on prior research. The experimental procedure and results are described in sections 3 and 4 respectively. The paper concludes with a summary and directions for future research.

2.0 INSTITUTIONAL BACKGROUND AND HYPOTHESIS DEVELOPMENT

A potential threat to auditor independence that has been of particular concern to regulators is the provision of non-audit services by audit firms. According to the SEC, "A 1994 Report of the AICPA Special Committee on Financial Reporting [(1994)] noted that users of financial statements believed that non-audit service relationships could "erode auditor independence" and that those users were "concerned that auditors may accept audit engagements at marginal profits to obtain more profitable consulting engagements (Securities and Exchange Commission, 2000)."" In November 2000, the SEC addressed these growing concerns within the commission and by financial statement users by issuing *Final Rule S7-13-00, Revision of the Commission's Auditor Independence Requirements* (Securities and Exchange Commission, 2000). In the document, the SEC provided guidance on what constitutes a threat to auditor independence and more specifically which non-audit services threaten independence. The SEC's report cited various reasons for the decision to implement further guidance on which non-audit services impair independence such as non-audit service relationships long being viewed as a potential threat to auditor independence, the growth of certain non-audit services, and non-audit service relationships affecting investor confidence in the independence of auditors.

With significant regulatory and user concern that non-audit tax services impair independence, researchers have attempted to find empirical evidence to support this apprehension. In an early study, Frankel et al. (2002) find that non-audit fees are positively associated with small earnings surprises and the size of discretionary accruals, a finding that seems to confirm the regulator and user concern. Several researchers, however, have tried and failed to replicate Frankel et al.'s findings. For example,

Ashbaugh et al. (2003) attempt to replicate the findings and to determine why other researchers have been unsuccessful at replicating them. They find that Frankel et al. (2002) did not control for the relative performance of the firms that they evaluated and find that the association between non-audit fees and discretionary accruals is driven by income-decreasing accruals which signal accounting conservatism, not earnings management. The authors found little evidence to suggest that non-audit services impair auditor independence. Similarly, Defond et al. (2002) did not find a significant association between non-audit service fees and an auditor's propensity to issue going concern audit opinions. Li (2009) confirms these findings and do not observe that the proportion of non-audit services affects the auditor's willingness to issue a going concern report. In a research environment characterized by low litigation risk and private firms, Hope & Langli (2010) find that the level of audit fees does not impact auditor's willingness to issue modified opinions. They imply that the financial bond between the auditor and the client does not negatively impact auditor independence.

A specific non-audit service that is of particular interest to researchers is the provision of auditor-provided tax services. Robinson (2008) looks at the audits of firms immediately before going into bankruptcy and find that the probability of correctly issuing a going-concern opinion prior to a bankruptcy filing is positively correlated to the level of tax service fees. Far from contending that NATS impair independence, Kinney Jr. et al. (2004) find that NATS may actually improve audit quality. They find that,

"...tax services fees are typically negatively associated with restatements and that the association is usually statistically significant. The negative association is due to tax services purchased by larger registrants as well as those paying lucrative NAS fees and those with material misstatements. Thus, for our sample and the 1995–2000 period, larger registrants that spend large amounts on tax services from their audit firm typically have fewer restatements than do those who spend small amounts or zero. This

implies that the effects of any economic dependence on a client are more than compensated by financial reporting quality benefits, or alternatively, that high-quality registrants choose their audit firm to provide tax advice. Therefore, banning or restricting tax services from a registrant's audit firm may either reduce the quality of financial reporting or increase the cost of professional services to registrants without corresponding benefits from improved audit firm independence. (p. 585)."

Collectively the prior studies appear to show that the joint provision of tax services and audit services have little negative impact on the independence of the audit services.

Although we have gained some understanding of the impact of the joint provision of tax and audit services on the decisions and judgements of auditors, there has been less attention paid to the impact of how the joint provision of audit services may influence the judgement and decisions of tax advisors.

Previous studies have used auditor fee data to infer some characteristics of tax services provided by auditors. For example, Sikka & Hampton (2005) conjecture that audit firms sell tax avoidance schemes to their clients which allows wealthy clients to reduce their tax liabilities and forces the tax burden onto those less fortunate. This inference would suggest that audit firms increase the tax aggressiveness of their clients. In a study of total audit fees to non-audit fees, Donohoe & Knechel (2014) find that tax aggressiveness is positively associated with the amount of audit fees paid by client firms. They find that the premium paid increases as the level of tax uncertainty increases. Also implying that having the tax firm internal to the audit firm increases tax aggressiveness, Cook et al. (2008) find that tax service fees paid to auditor firms are positively associated with firms using tax expenses to manage earnings. Similarly, Dhaliwal et al. (2013) find that "the positive relationship between tax NAS fees and tax avoidance is driven by tax planning NAS fees. However, the impact of tax planning NAS fees on tax avoidance is more pronounced if the auditor provides tax planning services in conjunction with

tax compliance services. Such findings are consistent with knowledge spillover effects as the auditor's tax team most likely provides both tax planning and tax compliance services to an audit client." Hogan & Noga (2015) find a negative relationship between non-audit tax services and taxes paid suggesting that auditor-provided tax services increase aggressiveness. Gleason & Mills (2011) take a somewhat conflicting stance and find that firms that purchase tax services from their audit firm have, on average, adequate tax reserves for IRS disputes, whereas firms that do not purchase tax services from their audit firms do not have adequate tax reserves. This finding may suggest a more conservative approach when the auditor is internal to the tax function. Finally, Chyz et al. (2017) find that "tax planning and tax compliance services, and the overlap of the two services, capture different company goals and different costs faced by audit firms in the current tax environment. Collectively, our results suggest that companies paying their auditors for tax planning advice are more effective tax planners (in terms of both reductions in effective tax rates and higher cash tax savings, and, lower risk) than firms who do not engage their auditor for tax work. However, our tax rate minimization and cash tax savings results hold only when firms also engage their auditors for tax compliance work consistent with auditors seeking to minimize reputation threats." Based on the literature, it is unclear what effect having the auditor internal to the tax function will have on tax aggressiveness. Although the auditor tax fee data has provided important insights into how the relative amount of fees paid to a firm's auditor impacts tax aggressiveness, it is only available for fees paid to the auditor. Data on tax fees paid to non-auditor tax advisors, is difficult to obtain and therefore it does not provide an opportunity to discern characteristics of tax advice provided by non-auditors relative to auditors, essential for investigating the impact of joint service provision on tax professionals advice

Lisowsky et al. (2016) use proprietary IRS data on whether the corporate tax return was prepared by the auditor, a non-auditor accounting firm or inhouse tax professional to investigate the role of tax preparer on tax outcomes. Drawing on the Scholes-Wolfson paradigm as discussed by

Shackelford and Shevlin (2001) that business decisions should reflect “all parties, all taxes and all costs”, the authors hypothesize that costs associated with uncertain and risky tax positions will not be uniform across tax preparer types. Specifically the authors state “...with the joint provision of audit and tax services, auditor-preparers bear greater costs, relative to other preparer parties, if a position is overturned due to a tax audit and court action.” (p.184). The authors provide evidence that tax returns signed by a corporation’s audit firm are associated with less aggressive tax positions than returns signed by a non-auditor accounting firm. The study identifies that the choice of tax preparer has an impact on their tax outcomes however the authors note in their limitations that they are not able to identify causation only correlation. The evidence is unable to identify if this difference in tax outcomes is the result of a change in judgement by the tax advisors when providing joint services relative to when they are providing only tax services or whether the difference in tax outcomes is driven by corporations choosing advisors that match their tax risk preferences (ie. Understanding the cost constraints discussed above, only more conservative firms choose to have their auditor also provide their tax compliance work). The authors state “...our findings provide an important first step in establishing that tax preparers are linked to corporate tax outcomes, and that more research is needed to sharpen these inferences”. Using an experimental setting, we investigate whether the tax outcome is in fact driven by a difference in how tax professional advise their clients when joint audit and tax services are provided and therefore hypothesize:

H1 Tax advice provided by tax professionals will be less aggressive when the tax professional's firm is providing both tax advisory services and auditor services relative to when the tax professional is providing only tax services.

When making a recommendation to a client in an uncertain tax situation, a tax professional must make an outcome-weighted assessment of the costs of having a recommended position overturned against the benefits of the tax savings. The expected future cashflows to the professionals

firm is a function of the perceived value of the client service. The expected value of the firm's services to the client can be estimated as:

$$E(\text{Value of services}) = E(\text{Net benefit of tax services}) + E(\text{Net benefit of audit services}) \quad (1)$$

$$E(\text{Value of services}) = (E(\text{Value of tax reduction} - \text{Tax related costs}) + E(\text{Value of audit services} - \text{Audit related costs})) \quad (2)$$

According to Lisowsky et al. (2016) the Audit related costs will include the impact of uncertain tax positions which is a product of tax uncertainty and tax reductions claimed. The professional's perception of the importance of the tax reduction to providing enhanced quality client service and to how they are perceived, as a competent tax professional will influence how they weigh the value of the tax reduction into their advice. If the provision of joint services affects the aggressiveness of the tax professional's advice to the corporate client we would expect the tax professional's perception of the importance of tax reduction to be impacted by the joint provision of audit services. We expect that when the tax professional's firm is only responsible for tax services, providing advice with a greater level of tax reduction will be perceived highly in terms of client service and a reflection of the tax professional's competence. However, when the tax professional's firm also provides audit services, the importance of tax minimization within the basket of services provided will be reduced and this will be reflected in the tax professional's perception of the role of tax minimization's impact on client service and as a reflection of the professional's competence. Therefore we hypothesize:

H2a: The tax professional's perception of supporting a tax reducing position as an enhancement of service quality will be greater when the tax professional's firm is providing only tax services relative to when the tax professional's firm is providing joint tax and audit services.

H2b: The tax professional's perception of supporting a tax reducing position as an enhancement of their professional tax competence will be greater when the tax professional's firm is providing only tax services relative to when the tax professional's firm is providing joint tax and audit services.

H2c: Tax professionals are more likely to provide tax-reducing advice when they perceive, tax reduction as an enhancement of service quality (enhancement of their professional competence).

In addition to shifting the importance of tax minimization to client service, the perceived uncertainty's influence on the tax professional's advice may also be impacted by the joint provision of audit and tax services. Consistent with Lisowsky et al. (2016)'s theory that the difference in tax outcome is driven by the additional audit costs created by tax uncertainty and borne by the firm that provides the financial statement audit we investigate the role of the tax advisor's perceived tax uncertainty on the relationship in H1. We predict:

H3 The level of perceived tax uncertainty will have a more negative impact on the aggressiveness of the tax professionals tax advice when they are providing both tax and audit services relative to when the tax professional is only providing tax services.

3.0 DATA AND RESEARCH DESIGN

Experimental Method, Materials and Procedures

The use of the experimental method permits causal inferences of the effect of joint service provision of audit and tax services on tax advisor recommendations which is the primary focus of the current study. Due to the lack of archival data available to examine the study's theoretical relationships (e.g., tax professional's perceptions of professional competence and tax service quality assessments), the experimental method was necessary.

The experimental case used in this study was created by the authors to reflect a realistic tax scenario where the correct tax treatment was uncertain. The tax treatment of management fees for a corporate client was selected as the case context because it involves significant professional judgment by the tax professional. When creating the case materials, the case was designed to contain numerous case fact to support the deduction of the management fee and numerous case facts to not support the deduction of the management fee. These statements were pilot tested with an expert panel of tax partners at both Big-4 and non Big-4 firms to ensure the case facts were operating as designed. Specifically, the expert

panel responded to the following two questions for each individual case: (1) “Does this case fact make the management fee deduction less or more defensible?” measured on an 11-point scale ranging from -5 (“Less defensible”) to + 5 (“More defensible”) with a midpoint of 0 (“Uncertain”), and (2) “How important is this case fact when considering whether to deduct the management fee?” on an 11-point scale ranging from 0 (“Not important”) to 10 (“Very important”). We also asked the expert panel whether “any of the preceding case facts overwhelm all others when making a decision to deduct the management fee”, if any case facts were inadvertently included in the case materials that suggested the management fee should or should not be deducted, and whether “any other case facts would be necessary to know before making a decision as to whether to deduct the management fee?”. Based on the responses and feedback provided by the expert panel, minor modifications were made to the case instrument. Finally, another tax partner that was not part of the expert panel read through the final version of the case to ensure the case was easy to understand, realistic, and that the uncertain case context continued to operate as designed.

The experimental procedures are as follows: participants were asked to assume the role of a tax professional preparing for a meeting with a new client who is seeking advice regarding a management fee between associated companies. The participants proceeded onto Part A of the experimental instruments that provided two pages of background information and client details including the specific case facts of the management fee and related financial details. All information in Part A was held constant across conditions with the exception of the experimental manipulation as to whether the client’s financial statement auditor was from the same or different firm as the tax professional (discussed further below). Participants then proceeded onto Part B of the experimental materials which asked participants to provide a qualitative memo to support their assessment of their tax position. Participants were allowed to refer to the information in Part A to create their supporting memos, and this allowed participants to establish their mental models of the tax issue. At the end of their memo, participants responded to the primary dependent variable measures regarding the deduction of the management fee (as discussed below). Participants then proceeded onto Part C of the experimental materials which contained questions focusing on the service

quality assessments, tax professional competence perceptions, and other concluding questions and finally a manipulation check question.

Experimental Design

The experiment is a between-participant experimental design that manipulates only one factor – whether the tax professional is at the same firm or different firm as the external financial statement auditor. The primary dependent variable is the participant’s recommendation regarding the deduction of the management fees for income tax purposes.

Independent Variables

The independent variable, Auditor, was operationalized as two levels. In the joint service provision scenario, participants were provided with the following information in Part A of the experimental materials:

“In addition to providing tax services, your Big-4 firm has been appointed Leisure Co. and subsidiaries’ external financial statement auditors. Based on interactions with the audit engagement partner at your firm, Jordan has had good relations with public accountants, responds quickly to request s for information, has never ben involved in lawsuits, and has generally been described as easy to work with.”

In contrast, in the non-joint service provision scenario, participants were provided with the following information:

“A different Big-4 firm has been appointed Leisure Co. and subsidiaries’ external financial statement auditors. Based on interactions with the audit engagement partner at the other Big-4 firm, Jordan has had good relations with public accountants, responds quickly to requests for information, has never been involved in lawsuits, and has generally been described as easy to work with.”

Moderating Variable

It is hypothesized that perceived uncertainty may serve as a moderating variable that interacts with the auditor independent variable. To capture tax professionals’ perceptions of uncertainty,

Outcome_Certainty, participants were asked to “Estimate the likelihood that the management fee deduction could be defended if the client chose to claim the deduction and the deduction was later challenged during a CRA audit” measured on an 11-point scale ranging from 0% (“0% probability that the client could successfully defend fee deduction”) to 100% (100% probability that client could successfully defend fee deduction”).

Mediating Variables

Several mediating variables are examined. First, to capture tax professionals’ assessment of service quality, *Client_Service*, participants were asked “To what extent do you believe providing tax advice in support of the deduction enhances service quality to Leisure Co.?” measured on an 11-point scale ranging from 0 (“No enhancement of quality”) to 10 (“Extensive enhancement of quality”). Second, to capture tax professionals’ perceptions of their own tax competence, *Competence*, participants were asked “To what extent do you believe providing tax advice in support of the deduction enhances perceptions of your tax competence in the eyes of your superiors (e.g., tax engagement partner)?” measured on an 11-point scale ranging from 0 (“No enhancement of competence”) to 10 (“Extensive enhancement of competence”).

Dependent Variable

The primary dependent variable, *Recommend*, the participants’ response to the question “What is your recommendation regarding Leisure Co.’s deduction of the management fees for income tax purposes” measured on an 11-point scale ranging from -5 (“Strongly recommend NOT deducting a fee”) to +5 (“Strongly recommend deducting a fee”) with a midpoint of 0 (“Uncertain”).¹

¹ In Part B of the experimental materials, after *Recommend* was elicited a second dependent variable, *Rec2*, was also elicited. *Rec2* is the participants’ response to the question “What is your recommendation regarding the amount of management fees that Leisure Co. should deduct for income tax purposes?” measured on a 6-point scale ranging from \$0 to \$5.0 million. Notably, the power of statistical tests using *Rec2* will be lower given the limited number of scale points and related reduced variance in responses.

Participants

Given the tax expertise necessary for the case context, highly experienced tax practitioner participants were determined to be necessary for the study. Following the approved behavioral ethics protocols, 62 professional tax accountants participated in the experiment of which 66% ($n = 41$) were from Big-4 firms. 34% (58%) are female (male) with 8% not disclosing gender. Each author contacted personal senior-level contacts at a variety of public accounting firms to elicit support for the study. The senior-level contacts then identified firm tax partners and staff with the appropriate level of tax expertise necessary for the study and then emailed the prospective participant a link to the study.² In regard to firm position, 27% ($n = 17$) of the participants are tax partners, 32% ($n = 20$) of the participants were tax senior managers, 15% ($n = 9$) of the participants were tax managers, 15% ($n = 9$) maintained other positions in the firm (e.g., director of corporate tax, tax specialist), and 11% ($n = 7$) did not provide disclose their firm position. On average, the 62 participants had an average (standard deviation) of 10.96 (7.68) years of tax experience and 79% ($n = 49$) of participants reported direct experience with deducting management fees. Further, 35% ($n = 22$) of respondents reported experience in disputes with the tax authority over management fees and 95% ($n = 21 / 22$) of these disputes were resolved permitting the deduction either in full or in part.

To ensure participants understood the case information, a debriefing question asked whether the participants agreed that the case information was easy to understand on an 11-point scale ranging from -5 (“Strongly Disagree”) to +5 (“Strongly Agree”). The response average (standard deviation) of 2.51 (2.50) is statistically significantly greater than the scale midpoint of zero ($t_{56} = 7.58$, $p < 0.001$) providing evidence that the participants understood the case.

² One firm preferred hard copy-distribution of the instrument which was administered by a doctorate colleague of the authors.

Participants also agreed that the case was realistic with an average (standard deviation) response of 2.21 (2.53) on an 11-point scale ranging from -5 (“Strongly disagree”) to +5 (“Strongly agree”) which was statistically significantly greater ($t_{56} = 6.61$, $p < 0.001$) than the scale midpoint of zero (“Neither agree nor disagree”). Participants were randomly assigned to experimental conditions.

4.0 RESULTS

Manipulation Check

The manipulation check question asked participants if their firm also provided financial statement audit services to the client on an 11-point scale ranging from -5 (“Strongly Disagree”) to +5 (“Strongly Agree”) with a midpoint of 0 (“Uncertain”). The results of a one-way ANOVA (*External_Auditor*) using the above manipulation check question as the dependent variable indicates that participants attended to audit service provider manipulation as evidenced by a statistically significant main effect ($F = 5.993$, $p < 0.01$).

Insert Table 1 Here

Results of Testing H1 -Tax Recommendations

As tabulated in Table 2 Panel B, Table 3 Panel B and Table 4 Panel B, the *External_Auditor* variable has a consistent statistically significant main effect on tax recommendation decisions such that more aggressive tax deductions are recommended when the tax professional is at a different public accounting firm than the financial statement auditor as compared to when the public accounting firm provides both tax and audit services jointly. In addition, Table 5 Panel A documents the results of a one-way ANOVA (*External_Auditor*) using *Recommend* as the dependent variable. As evidenced by a statistically significant *External_Auditor* main effect ($F = 6.857$, $p = 0.011$, two-tailed), the results continue to suggest that more conservative tax recommendations are made when tax and audit services are jointly offered by the same firm as compared to when the firm only conducts the tax services. Table 5

Panel B documents similar results using a different operationalization of the tax recommendation, Rec2. Notably, given the 6-point scale of the Rec2 and the decreased standard deviations, there is reduced power in the statistical tests using this measure as the dependent variable.³ Nevertheless, the results of a one-way ANOVA (*External_Auditor*) using Rec2 as the dependent variable in Table 5 Panel B continue to yield a statistically significant *External_Auditor* main effect ($F = 3.561$, $p = 0.065$, two-tailed). Finally, the results documented in Table 5 Panel C of a one-way MANOVA (*External_Auditor*) using both *Recommend* and Rec2 as the dependent variables documents a statistically significant *External_Auditor* main effect ($F = 2.578$, $p = 0.086$, two-tailed). Collectively, these results support H1 and provide direct evidence that tax professionals provide less aggressive tax advice when the tax professional's firm is jointly providing audit and tax services relative to when the tax professional's firm is providing tax services alone.

Results of Testing H2

Client Service Quality

Focusing first on client service quality, Table 2 Panel A documents the results of a one-way ANOVA (*External_Auditor*) using *Client_Service* as the dependent variable. As evidenced by a statistically significant *External_Auditor* main effect ($F = 3.954$, $p = 0.052$, two-tailed), the results suggest that when the tax professional is from a different public accounting firm than the financial statement auditor, the tax professional believes that providing tax advice in support of the deduction enhances services quality to a greater extent as compared to when the tax and audit is provided by the same firm. Table 2 Panel B examines how tax professional's assessments of client service quality impacts their tax recommendations controlling for whether tax and audit services are jointly provided by the same firm. The results of an OLS regression documents a statistically significant positive association between *Client_Service* and *Recommend* ($B = 0.377$, $p = 0.002$) suggesting that tax professionals provide more

³ In general, replacing *Recommend* with Rec2 in the tabulated analyses yields lower levels of statistical significance.

aggressive tax advice to deduct the management fees when they believe this deduction enhances the service quality to the client.

To examine whether there is a mediation relationship such that the joint provision of audit and tax services impacts tax recommendations through the tax professional's assessment of service quality, Table 2 Panel C documents the results of a bootstrap mediation model (Hayes 2009; 2013). The indirect effect is statistically significantly different from zero as evidenced by the 95% confidence interval limits (0.002 to 1.664) using 5,000 bootstrap samples. Accordingly, the results suggest that tax recommendations are impacted by whether the firm provides both audit and tax services, but this effect is mediated through the tax professional's assessment of client service quality. Stated differently, the results would suggest that when both audit and tax services are provided jointly by the same public accounting firm, tax professionals assess a lower importance on the tax deduction to service quality (given the multiple services being provided to the client) and therefore are less likely to recommend the deduction.

Tax Competence Perceptions

Focusing on how the tax professional views their own professional competence, Table 3 Panel A documents the results of a one-way ANOVA (*External_Auditor*) using *Competence* as the dependent variable. The results suggest that when the tax professional is from a different public accounting firm than the financial statement auditor, the tax professional believes that providing tax advice in support of the deduction enhances perceptions of their tax competence as compared to when the tax and audit is provided by the same firm as evidenced by a statistically significant *External_Auditor* main effect ($F = 3.923$, $p = 0.052$, two-tailed). Table 3 Panel B examines how tax professional perceptions of their own professional competence impacts their tax recommendations controlling for whether tax and audit services are jointly provided by the same firm. The results of an OLS regression documents a statistically significant positive association between *Competence* and *Recommend* ($B = 0.0.230$, $p = 0.075$, two-tailed)

suggesting that tax professionals provide more aggressive tax advice to deduct the management fees when they believe such advice enhances perceptions of their tax competence.

To examine whether there is a mediation relationship such that the joint provision of audit and tax services impacts tax recommendations through the tax professional's perception of their own competence, Table 3 Panel C documents the results of a bootstrap mediation model. The indirect effect is not statistically significantly different from zero as evidenced by the 95% confidence interval limits (-0.050 to 1.184) using 5,000 bootstrap samples.⁴

Accordingly, the results suggest that tax recommendations are impacted by whether the firm provides both audit and tax services, but this effect is mediated through the tax professional's assessment of client service quality. Stated differently, the results would suggest that when both audit and tax services are provided jointly by the same public accounting firm, tax professionals assess a lower importance on the tax deduction to service quality (given the multiple services being provided to the client) and therefore are less likely to recommend the deduction.

Client Service Quality and Tax Competence Perceptions Composite Measure

It is possible that participants' assessments of client service quality and perceptions of tax competence are two measures of the same construct. To examine this possibility, we performed various statistical tests. First, the Cronbach's alpha between *Client_Service* and *Competence* is 0.789 suggesting an acceptable level of internal reliability. Second, a factor analysis suggests a single dimension with an eigenvalue of 1.1652 with the second eigenvalue of 0.348 falling below conventional recommendations.

⁴ The 90% confidence intervals (0.001 to 1.0112) is statistically significantly different from zero providing marginal support for the indirect effect. This result would provide marginal support that when the public accounting firm only provides tax advice (and not financial statement audit services), tax providers believe supporting the tax deduction enhances their perceptions of tax competence and therefore are more likely to recommend the deduction.

Accordingly, we reconduct the above analyses using a new composite measure, *Serv_Comp*, by summing *Client_Service* and *Competence*.

Table 4 Panel A documents the results of a one-way ANOVA (*External_Auditor*) using the composite measure *Serv_Comp* as the dependent variable. As evidenced by a statistically significant *External_Auditor* main effect ($F = 4.839$, $p = 0.032$, two-tailed), the results suggest that participants believe recommending a tax deduction enhances service quality and tax competence perceptions when the tax professional is from a different public accounting firm than the financial statement auditor as compared to when the tax service and financial statement audit is provided by the same firm. Consistent with the results above, Table 4 Panel B documents the results of an OLS regression which yields a statistically significant positive association between *Serv_Comp* and *Recommend* ($B = 0.189$, $p = 0.006$, two-tailed) suggesting that tax professionals provide more aggressive tax advice to deduct the management fees when they believe such advice enhances service quality and perceptions of their tax competence.

To examine whether there is a mediation relationship such that the joint provision of audit and tax services impacts tax recommendations through the composite measure of the tax professional's assessment of service quality and perception of their own competence, Table 4 Panel C documents the results of a bootstrap mediation model. The indirect effect is statistically significantly different from zero as evidenced by the 95% confidence interval limits (0.044 to 1.558) using 5,000 bootstrap samples.⁵

⁵ Two additional measures were captured that provided similar results. One question, comparable to *Client_Service*, asked participants "To what extent do you believe providing tax advice in support of the deduction is beneficial to Leisure Co.?" measured on an 11-point scale ranging from 0 ("No Benefit") to 10 ("Extensive benefit"). A second question, comparable to *Competence*, asked participants "To what extent do you believe providing tax advice in support of the deduction enhances perceptions of your tax competence at your firm?" measured on an 11-point scale ranging from 0 ("No enhancement of competence") to 10 ("Extensive enhancement of competence"). Cronbach's alpha achieves reasonable levels of internal reliability at 0.851 using the four responses. Further, a factor analysis suggests a single dimension with an eigenvalue of 2.796 with the second eigenvalue of 0.706 falling below conventional recommendations. Constructing a new composite measure using the sum of the four measures (*Client_Service*, *Competence* and the two additional measures), the analysis in Table 4 is repeated with similar

Results of Testing H3

The Moderating Effect of Tax Uncertainty on The Impact of Joint Audit and Tax Service Provision on Tax Recommendations

H3 hypothesizes that tax uncertainty will have a more negative impact on the aggressiveness of a tax professionals advice when the tax professional's firm is providing both tax and audit services. Said differently, tax uncertainty (tax certainty) is expected to be negatively (positively) related to the aggressiveness of tax professionals advice, we predict that this relationship will be stronger (less strong) when the tax professional is providing joint (tax only) service.

Using robust OLS regression we estimate the following equation:

$$\begin{aligned} \text{Recommend} = & \beta_1 \text{External_Auditor} + \beta_2 \text{Outcome_Certainty} + \beta_3 \text{Auditor} \times \text{Outcome_Certainty} + \\ & \beta_4 \text{Client_Service_Composite} + \varepsilon \end{aligned} \quad (3)$$

Where

Recommend is the primary dependent variable as the participant's response to the question "What is your recommendation regarding Leisure Co.'s deduction of the management fees for income tax purposes" measured on an 11-point scale ranging from -5 ("Strongly recommend NOT deducting a fee") to +5 ("Strongly recommend deducting a fee") with a midpoint of 0 ("Uncertain");

External_Auditor is the primary independent variable and is equal to 1 if the financial statement audit is completed by a firm other than the tax professional's firm and is 0 if the financial statement audit is completed by the same firm as the tax professional;

Outciome_Certainty is the participant's response to the question "Estimate the likelihood that the management fee deduction could be defended if the client chose to claim the deduction and the deduction was later challenged during a CRA audit [Tax Authority audit]". Responses ranged from 0% to 100%.

results. Specifically, the results of a one-way ANOVA (auditor) using the new composite measure as the dependent variable yields a statistically significant auditor main effect ($F=3.208$, $p = 0.079$, two-tailed). The results of an OLS regression using *Recommend* as the dependent variable and the composite measure as the independent variable while controlling for auditor yields a statistically significant composite measure main effect ($B = 0.126$, $p = 0.001$, two-tailed) and a statistically significant auditor main effect ($B = 1.1432$, $p = 0.054$, two-tailed). The results of the mediation analysis documents a statistically significant indirect effect such that the joint provision of tax and audit services impacts tax recommendations through the composite measure at the 90% level of statistical significance using 5,000 bootstrap samples (confidence interval limits of 0.066 to 1.33).

Client_Service_Composite is the sum of *Client_Service* and *Competence* measured as:

Client_Service is the participant's response to the question "To what extent do you believe providing tax advice in support of the deduction enhances service quality to Leisure Co.?" measured on an 11-point scale ranging from 0 ("No enhancement of quality") to 10 ("Extensive enhancement of quality");

Competence is the participant's response to the question "To what extent do you believe providing tax advice in support of the deduction enhances perceptions of your tax competence in the eyes of your superiors (e.g., tax engagement partner)?" measured on an 11-point scale ranging from 0 ("No enhancement of competence") to 10 ("Extensive enhancement of competence");

H3 predicts a negative coefficient for β_3 , the coefficient on the interaction between *External_Auditor* and *Outcome_Certainty* as the positive relationship between *Outcome_Certainty* and *Recommend* is expected to be less essential and therefore weaker when the tax professional is only providing tax services (*External_Auditor*=1). The results of the estimating Equation (3) are presented in Table 6. As predicted by H3, the coefficient in Column (1) on β_3 , the coefficient on the interaction between *External_Auditor* and *Outcome_Certainty* is -0.47 and significant at a 5% level of significance using a two tailed test. The results provide evidence that tax uncertainty a more negative impact on the aggressiveness of tax advice provided by tax professionals when their firm is also providing audit services relative to when the tax professional's firm is only providing tax advice. This result suggest that tax professionals become more conservative with their tax advice in the face of tax uncertainty when their firm is also providing audit services to the client. Recent studies have began to disentangle the concepts of tax uncertainty and tax aggressiveness and this result provides an important insight into how context (in this case jointly providing tax services) can affect the relationship of these concepts.

Additional Analyses

When the tax professional's firm is providing audit services in addition to tax services this means that the tax positions recommended by the tax professional and adopted by the client will result in tax outcomes that must be reviewed by the auditor. The audit will then require the tax partner to

sign off working papers on the assertions of the tax positions impact on the financial statements. When these tax positions involve uncertainty as in the experimental setting, this may create a number of potential behavioral reasons why the tax professional may alter the aggressiveness of their tax advice when the auditor reviewing their work is in their firm.

The analysis above provides evidence that tax uncertainty has a greater impact on the tax aggressiveness of tax professionals advice when their firm is also providing audit services to the client than when they are providing tax services alone. We undertake additional analyses below to explore several explanations for why tax professionals may alter the aggressiveness of their advice when their firm is also providing audit services to the client.

Anticipated Auditor Scrutiny and Objectivity

According to Bolino, et al. (2008), impression management (IM) refers to tactics used by individuals to enhance their personal images at work. As a motivation for practicing IM, the literature has shown that people have a strong desire and motivation to look competent to their peers. Wayne & Green (1993) found that impression management is positively associated with high job performance ratings. Additionally, Roberts (2005) describes the importance of maintaining a good professional image and describe how IM may be used for that purpose. Individuals thus have a desire to be seen as competent and may use IM as a tool to do so. Fandt & Ferris (1990) found that individuals are more likely to practice impression management when they are in positions of high accountability and low ambiguity, a setting much like a public accounting firm. Liberman & Trope (2010) provide a foundational study which infers a negative relationship between impression management and social distance, suggesting individual's are more likely to alter their behavior when dealing with those we are socially closer. In the case of the same firm providing tax and audit services, this could suggest that the auditor

is more likely to alter their behavior when auditing work from the same firm providing greater scrutiny in order to appear more competent.

It is possible that when tax professionals work at the same firm as the auditor, the tax professional may anticipate a greater level of scrutiny and/or auditor objectivity in their tax recommendations as compared to when the auditor is a different firm. If true, then this may explain why tax advisors are more conservative in their tax recommendations under joint provision of services as compared to when only tax services are provided. First, to examine the possibility of anticipated scrutiny, participants were asked “...to what extent do you believe the auditor would scrutinize your assessment and justification?” measured on an 11-point scale ranging from 0 (“No scrutiny”) to 10 (“Extreme scrutiny”). Untabulated results of a one-way ANOVA (*External_Auditor*) using the anticipated scrutiny measure as the dependent variable yields a non-statistically significant *External_Auditor* main effect ($F = 0.030$, $p = 0.862$, two-tailed). The untabulated results suggest that participants do not anticipate a difference in auditor scrutiny regardless of whether the auditor is from the same or different firm as the tax professional.

Second, to examine whether participants differed across conditions as to they believed the external auditor would differ in their level of objectivity, participants were asked “...to what extent do you believe the auditor would be objective in their audit of your assessment and justification?” measured on an 11-point scale ranging from 0 (“No objectivity”) to 10 (“Extreme objectivity”). Untabulated results of a one-way ANOVA (*External_Auditor*) using the anticipated objectivity measure as the dependent variable yields a non-statistically significant *External_Auditor* main effect ($F = 0.087$, $p = 0.769$, two-tailed). The untabulated results suggest that participants do not anticipate a difference in auditor objectivity regardless of whether the auditor is from the same or different firm as the tax professional.

Concern for the Uncertain Tax Position’s Impact on The Tax Partner, and The Audit Partner

According to Organ (1988), “[organizational citizenship behaviour] is employee work behavior that goes beyond the call of duty and contributes to organizational functioning (e.g., helping others, staying late or

working weekends, volunteering for additional assignments).” Organ (1988) goes further and offers five categories of OCB; altruism, generalized compliance, sportsmanship, courtesy, and civic virtue. The first category, altruism represents behaviours which help a specific person at work. Generalized compliance refers to behaviours that go above and beyond the standard level of conscientiousness. Sportsmanship describes the willingness to accept inconveniences. Courtesy refers to consulting peers before taking actions that will affect them. Lastly, civic virtue refers to involvement in company affairs such as meetings and social events. Organizational citizenship behaviour is thus likely to be desired behaviour from employees.

Fandt and Ferris (1990) were among the first to identify a link between IM and OCB . Wayne & Green (1993) also note a positive correlation between altruism and IM. In the context of a tax professional’s firm providing joint audit and tax services, this may suggest that due to organizational citizenship behavior the tax professional remains aware of the impact their advice may have on the other services provided by the firm and the individual’s who provide them. The more global understanding, may result in the tax professional altering their behavior (reducing the aggressiveness of their advice) to avoid negative impacts on others in the firm. In the context of joint audit and tax provision, this may be out of consideration for the tax partner who must make an assertion on the uncertain tax positions impacts on the financial statement, and/or the audit partner who is ultimately responsible for any negative impacts of the uncertain tax position on the audit ranging from time and effort to the potential for costly restatements.

First, to examine the possibility that tax professionals show greater concern for the impact of their tax advice on their tax partner when providing joint audit and tax services relative to when the tax professional is providing tax advice alone , participants were asked “When evaluating whether to recommend Leisure Co. deduct the management fee, to what extent are you concerned that you would put the tax engagement partner in an awkward position” measured on an 11-point scale ranging from 0 (“No

Concern”) to 10 (“Extreme Concern”). Panel B of Table 7 provides the results of a one-way ANOVA (*External_Auditor*) using the measure of concern for the tax partner (*Concern_Tax*) as the dependent variable yields a non-statistically significant *External_Auditor* main effect ($F = 0.214$, $p = 0.645$, two-tailed). The results suggest that participants do not exhibit more concern that an uncertain tax position will put the tax partner in an awkward position whether the auditor is from the same or different firm as the tax professional.

Secondly, to examine the possibility that tax professionals show greater concern for the impact of their tax advice on the audit partner when the audit partner is in the same firm relative to when the audit partner is in a different firm, participants were asked “When evaluating whether to recommend Leisure Co. deduct the management fee, to what extent are you concerned that you would put the audit engagement partner in an awkward position” measured on an 11-point scale ranging from 0 (“No Concern”) to 10 (“Extreme Concern”). Panel C of Table 7 displays results of a one-way ANOVA (*External_Auditor*) using the measure of concern for the audit partner (*Concern_Audit*) as the dependent variable yields a statistically significant result *External_Auditor* main effect ($F = 8.826$, $p = 0.004$, two-tailed).

The result provides evidence that tax professionals are aware that advising uncertain tax positions may have a negative impact on the financial statement audit. This finding provides further support for H3 and the relationships between tax uncertainty, audit costs and the expected value of client services as described in Equation (2). Importantly as tax professionals demonstrate greater concern for the affects of providing aggressive tax advice in the presence of tax uncertainty when the audit partner is in their firm, consistent with organizational citizenship behavior.

Concern for Self

In addition to studies that link OCB to IM, psychological distance has been shown to positively correlate with risk-taking propensity (Sagristano, Trope, & Liberman, 2002). These studies show that IM is

associated with positive behaviour and suggests that individuals who practice impression management will be less likely to be willing to take major risks. Tax accountants may believe that advising tax aggressive policies will cause them to be seen as irresponsible and less competent to the auditors internal to their firm. Therefore it is possible that the tax professional may show a greater concern for how the auditor will perceive their work when the audit partner is in their firm relative to an audit partner outside of the firm.

To examine the possibility that tax professionals show greater concern for how their work will be perceived when the audit partner is in the same firm relative to when the audit partner is in a different firm, participants were asked “When evaluating whether to recommend Leisure Co. deduct the management fee, to what extent are you concerned about how the audit partner will perceive your work” measured on an 11-point scale ranging from 0 (“No Concern”) to 10 (“Extreme Concern”). Panel D of Table 7 displays results of a one-way ANOVA (*External_Auditor*) using the measure of concern for how your work will be perceived (*Concern_You*) as the dependent variable yields a statistically insignificant result *External_Auditor* main effect ($F = 0.382, p = 0.539$, two-tailed). This result suggests that tax professionals are equally confident in their work whether the auditor is within their firm or outside their firm.

Collectively, this analysis provides important insights into the tax professional’s decisions to provide less aggressive tax advice in the presence of tax uncertainty when their firm is also providing audit services relative to when the audit is performed by an auditor outside the firm. Notably, the tax professional does not expect a difference in the level of scrutiny or objectivity whether the auditor is within their firm or outside. This provides important evidence in support of previous studies that suggest that joint provision of audit and tax services do not impede the independence of audit work as they provide confirming evidence from a novel and important perspective which is the non-audit service provider themselves. Additionally the tax professional does not show a difference in concern for how

their work will be perceived or that the tax partner will be put in an awkward position regardless of who the auditor is. Most importantly, the only difference identified is concern for how the aggressive tax advice may impact the auditor's position. Collectively, this analysis provides additional evidence in support of the hypotheses by demonstrating the tax professionals' awareness that their advice may impact the auditor and secondly that this concern is greater when the auditor is within their firm.

Client Identification

In the auditing literature, there is a body of evidence that suggests that as auditors identify with their clients they become less objective and therefore more willing to accept client-preferred accounting treatments (Bamber and Iyer 2007; Bauer 2015) and be more lenient on control assessments (Stefaniak et al. 2012). It is unclear whether client identification impacts tax advisors' recommendations and accordingly three measures were adapted from prior research (Bamber and Iyer 2007) to examine this possibility.⁶ Two analyses were conducted. First, untabulated results of a one-way ANOVA (*External_Auditor*) using the client identification composite measure as the dependent variable yields a non-statistically significant *External_Auditor* main effect ($F = 0.049$, $p = 0.980$, two-tailed). The untabulated results suggest that participants do not differ in how they identify with the client depending on whether they provide joint tax and audit services or if they provide only tax services. Stated differently, the increased amount of services provided under the joint service provider condition had no impact on how tax professionals identified with their clients. Second, untabulated results of an OLS regression using *Recommend* as the dependent variable and the client identification composite measure as the independent variable while controlling for the auditor condition yields a non-statistically

⁶ All responses to these were measured on an 11-point scale ranging from 0 ("Strongly agree") to 10 ("Strongly disagree"). The adapted measures were as follows: (1) "If I provided tax advice to Leisure Co., I would take criticism of Leisure Co.'s tax position personally.", (2) "If I provided tax advice to Leisure Co., I would be interested in what others think about Leisure Co.'s tax position.", and (3) "If I provided tax advice to Leisure Co., I would take compliments about Leisure Co.'s tax position personally."). Cronbach's alpha achieves reasonable levels of internal reliability at 0.821 using the three measures. Further, a factor analysis suggests a single dimension with an eigenvalue of 2.220 with the second eigenvalue of 0.427 falling below conventional recommendations. Consistent with prior research, a composite client identification measure was created using the sum of the three measures.

significant client identification main effect ($B = 0.030$, $p = 0.518$, two-tailed) and a statistically significant *External_Auditor* main effect ($B = 2.052$, $p = 0.012$, two-tailed). The untabulated results suggest that tax professionals client identification does not impact the tax recommendations by the tax professionals. This result highlights a unique difference between the results of prior audit research (Bamber and Iyer 2007; Stefaniak et al. 2012; Bauer 2015) that has warned of how auditors that identify with their clients may have reduced objectivity in conducting their financial statement audits and the current tax professional context whereby client identification has no impact on tax professionals judgment and decision making.

5.0 CONCLUSION

We provide evidence clarifying and deepening our understanding of how the joint provision of audit and tax services influences the aggressiveness of tax professional's advice in the presence of tax uncertainty. Lisowsky et al (2016) provide initial evidence suggesting that differences in tax preparers results impacts the tax aggressiveness of tax outcomes. Their research method is unable to identify if the documented difference in tax outcomes is the result of a change in judgement by the tax advisors when providing joint services relative to when they are providing only tax services or whether the difference in tax outcomes is driven by corporations choosing advisors that match their tax risk preferences (ie. Understanding the cost constraints discussed above, only more conservative firms choose to have their auditor also provide their tax compliance work). The authors state "...our findings provide an important first step in establishing that tax preparers are linked to corporate tax outcomes, and that more research is needed to sharpen these inferences".

We answer their call to deepen our understanding of the factors that influence the aggressiveness of tax professional's advice. Tax scenarios often lead to tax uncertainty. We define tax uncertainty as the uncertainty as to whether a tax position advised by the tax professional will ultimately be upheld or overturned by the tax authority. Often the fact patterns of a tax scenario do not provide a conclusive

opinion as to the appropriate tax treatment. This allows for judgement by the tax professional where the tax professional may take a more aggressive position (one that minimizes tax but may result in challenge by the tax authority) or a less aggressive position (one that leads to more tax paid but is unlikely to be challenged by the tax authority). What influences tax professionals to provide more or less aggressive advice in the presence of tax uncertainty is an open question.

Using an experimental setting, we investigate whether the joint provision of tax and audit services influences the aggressiveness of the tax professional's advice relative to when a tax professional's firm is only responsible for the tax advice. We find direct evidence that the advice recommendations of tax professionals are less aggressive when the tax professional's firm is also the auditor. We document that tax uncertainty has a more negative impact on the aggressiveness of a tax professional's advice when their firm is also the auditor. We also provide evidence that while the tax professional does not expect a difference in the scrutiny or objectivity of the auditor they are aware that providing more aggressive tax advice in the presence of tax uncertainty will impact the audit. The tax professional is more likely to show concern for the impact of an aggressive tax position on the audit when the auditor is in their same firm relative to if the auditor is from a different firm.

Collectively our results deepen our understanding of how joint service provision impacts the advice of tax professionals. Although our experimental setting holds a number of potential influences constant such as client specific attributes, we believe the academics, tax professionals and tax clients would benefit from additional investigation into the influences on the aggressiveness of tax professionals advice.

TABLE 1**Experimental Conditions, Cell Sizes and Means (Standard Deviations)**

Tax Professional and Auditor		
Same firm as Auditor (External_Auditor =0)	Different firm as Auditor (External_Auditor=1)	Totals
n = 33	n = 26	n = 59
<i>Recommend</i> = -1.24 (2.926)	<i>Recommend</i> = 0.81 (3.060)	<i>Recommend</i> = -0.34 (3.133)
<i>Rec2</i> = 0.86 (1.106)	<i>Rec2</i> = 1.148 (1.314)	<i>Rec2</i> = 1.13 (1.229)
<i>Client_Service</i> = 4.16 (3.21)	<i>Client_Service</i> = 5.83 (3.21)	<i>Client_Service</i> = 4.89 (3.29)
<i>Competence</i> = 3.25 (3.132)	<i>Competence</i> = 4.84 (2.968)	<i>Competence</i> = 3.95 (3.137)
<i>Concern_You</i> = 3.37 (2.74)	<i>Concern_You</i> = 3.84 (3.126)	<i>Concern_You</i> = 3.58 (2.900)
<i>Concern_Auditor</i> = 4.52 (3.12)	<i>Concern_Auditor</i> = 2.34 (2.340)	<i>Concern_Auditor</i> = 3.56 (2.985)
<i>Concern_Tax</i> = 4.43 (3.559)	<i>Concern_Tax</i> = 4.04 (2.814)	<i>Concern_Tax</i> = 4.26 (3.231)

Variable Definitions:

Recommend is the primary dependent variable as the participant's response to the question "What is your recommendation regarding Leisure Co.'s deduction of the management fees for income tax purposes" measured on an 11-point scale ranging from -5 ("Strongly recommend NOT deducting a fee") to +5 ("Strongly recommend deducting a fee") with a midpoint of 0 ("Uncertain");

Rec2 is a dependent variable as the participant's response to the question "What is your recommendation regarding the amount of management fees that Leisure Co. should deduct for income tax purposes?" measured on an 6-point scale ranging from \$0 to \$5.0 million;

External_Auditor is the primary independent variable and is equal to 1 if the financial statement audit is completed by a firm other than the tax professional's firm and is 0 if the financial statement audit is completed by the same firm as the tax professional;

Client_Service is the participant's response to the question "To what extent do you believe providing tax advice in support of the deduction enhances service quality to Leisure Co.?" measured on an 11-point scale ranging from 0 ("No enhancement of quality") to 10 ("Extensive enhancement of quality");

Competence is the participant's response to the question "To what extent do you believe providing tax advice in support of the deduction enhances perceptions of your tax competence in the eyes of your superiors (e.g., tax engagement partner)?" measured on an 11-point scale ranging from 0 ("No enhancement of competence") to 10 ("Extensive enhancement of competence");

Concern_You is the participant's response to the question "When evaluating whether to recommend Leisure Co. deduct the management fee, to what extent are you concerned about how the audit partner will perceive your work?" measured on an 11-point scale ranging from 0 ("No concern") to 10 ("Extensive concern");

Concern_Auditor is the participant's response to the question "When evaluating whether to recommend Leisure Co. deduct the management fee, to what extent are you concerned that you would put the audit engagement partner in an awkward position?" measured on an 11-point scale ranging from 0 ("No concern") to 10 ("Extensive concern");

Concern_Tax is the participant's response to the question "When evaluating whether to recommend Leisure Co. deduct the management fee, to what extent are you concerned that you would put the tax engagement partner in an awkward position?" measured on an 11-point scale ranging from 0 ("No concern") to 10 ("Extensive concern").

TABLE 2**Analysis of Client Service Quality****Panel A: One-way ANOVA (*External_Auditor*) using *Client_Service* as the dependent variable**

Source	Type III SS	DF	MS	F-Value	p-Value
<i>External_Auditor</i>	40.71	1	40.71	3.954	0.052

Panel B: OLS Regression using *Recommend* as the dependent variable

Source	Predicted Sign	B Coefficient	SE	t-Value	p-Value
<i>Client_Service</i>	+	0.377	0.114	3.319	0.002
<i>External_Auditor</i>	+	1.419	0.747	1.900	0.063

Panel C: Percentile bootstrap confidence interval based on 5,000 bootstrap samples

Panel C: Percentile bootstrap confidence interval based on 5,000 bootstrap samples			95% Confidence Interval Limits	
<i>Indirect effect of Auditor on Recommend</i>				
Source	Effect	SE	Lower	Upper
<i>Client_Service</i>	0.631	0.426	0.002	1.664

* *p*-value is two-tailed.

Variable Definitions:

External_Auditor is the between-participant factor operationalized at two levels as to whether the external financial statement auditor is at the same firm as the tax professional (0) or at a different public accounting firm (1).

See Table 1 for other variable definitions.

TABLE 3**Analysis of Tax Competence Perceptions****Panel A: One-way ANOVA (*External_Auditor*) using *Competence* as the dependent variable**

Source	Type III SS	DF	MS	F-Value	<i>p</i> -Value
<i>External_Auditor</i>	36.763	1	36.763	3.923	0.052

Panel B: OLS Regression using *Recommend* as the dependent variable

Source	Predicted Sign	B Coefficient	SE	<i>t</i> -Value	<i>p</i> -Value
<i>Competence</i>	+	0.230	0.127	1.816	0.075
<i>External_Auditor</i>	+	1.684	0.794	2.122	0.038

Panel C: Percentile bootstrap confidence interval based on 5,000 bootstrap samples

<i>Indirect effect of External_Auditor on Recommend</i>			95% Confidence Interval Limits	
Source	Effect	SE	Lower	Upper
<i>Competence</i>	0.366	0.329	-0.050	1.184

* *p*-value is two-tailed.

See Table 1 and 2 for variable definitions.

TABLE 4**Analysis of Tax Service Quality and Competence Perception Composite Variable****Panel A: One-way ANOVA (*External_Auditor*) using *Serv_Comp* as the dependent variable**

Source	Type III SS	DF	MS	F-Value	<i>p</i> -Value
<i>External_Auditor</i>	154.851	1	154.851	4.839	0.032

Panel B: OLS Regression using *Recommend* as the dependent variable

Source	Predicted Sign	B Coefficient	SE	<i>t</i> -Value	<i>p</i> -Value
<i>Serv_Comp</i>	+	0.189	0.066	2.866	0.006
<i>External_Auditor</i>	+	1.434	0.768	1.867	0.067

Panel C: Percentile bootstrap confidence interval based on 5,000 bootstrap samples

<i>Indirect effect of External_Auditor on Recommend</i>			95% Confidence Interval Limits	
Source	Effect	SE	Lower	Upper
<i>Serv_Comp</i>	0.616	0.392	0.044	1.558

* *p*-value is two-tailed.

Variable Definitions:

Serv_Comp is a composite variable by summing the participant's responses to *Client_Service* and *Competence*.

See Table 1 and 2 for variable definitions.

TABLE 5

The Impact of Joint Provision of Tax and Audit Services versus Non-joint services on Tax Recommendations

Panel A: One-way ANOVA (*External_Auditor*) using *Recommend* as the dependent variable

Source	Type III SS	DF	MS	F-Value	<i>p</i> -Value
<i>External_Auditor</i>	61.121	1	61.121	6.857	0.011

Panel B: One-way ANOVA (*External_Auditor*) using *Rec2* as the dependent variable

Source	Type III SS	DF	MS	F-Value	<i>p</i> -Value
<i>External_Auditor</i>	5.137	1	5.137	3.561	0.065

Panel C: One-way MANOVA (*External_Auditor*) using *Recommend* and *Rec2* as the dependent variables

Source	Wilks' Lambda	DF	DF Error	F-Value	<i>p</i> -Value
<i>External_Auditor</i>	0.910	2	52	2.578	0.086

* *p*-values are two-tailed.

See Table 1 and 2 for variable definitions.

TABLE 6

The Impact of Joint Provision of Tax and Audit Services and Tax Uncertainty on Tax Recommendations

Dependent Variable:		Recommend
		(1)
Variables	Predicted Sign	Coefficient (t-stat)
<i>External_Auditor</i>	+	3.073 ** (2.28)
<i>Outcome_Certainty</i>	+	0.086 *** (9.88)
<i>Auditor x Outcome_Certainty</i>	-	-0.047 ** (-2.14)
<i>Client_Service_Composite</i>	+	0.107 *** (2.71)
<i>Constant</i>		-5.62 *** (-14.99)
N Observations		59
R-squared		0.604

t-statistics in parentheses

*** $p > 2.576$, ** $1.96 < p < 2.576$, * $1.645 < p < 1.96$

See Table 1 and 2 for variable definitions.

Table 7

Impacts of Auditor on Tax Professional Concerns

Panel A: One-way MANOVA (*External_Auditor*) using *Concern_You*, *Concern_Auditor* and *Concern_Tax* as the dependent variables

Source	Wilks' Lambda	DF	DF Error	F-Value	p-Value
<i>External_Auditor</i> (H2)	0.776	3	55	5.306	0.003

Panel B: One-way ANOVA (*External_Auditor*) using *Concern_Tax* as the dependent variable

Source	Type III SS	DF	MS	F-Value	p-Value
<i>External_Auditor</i> (H2)	2.268	1	2.268	0.214	0.645

Panel C: One-way ANOVA (*External_Auditor*) using *Concern_Auditor* as the dependent variable

Source	Type III SS	DF	MS	F-Value	p-Value
<i>External_Auditor</i> (H2)	69.286	1	69.286	8.826	0.004

Panel D: One-way ANOVA (*External_Auditor*) using *Concern_You* as the dependent variable

Source	Type III SS	DF	MS	F-Value	p-Value
<i>External_Auditor</i> (H2)	3.248	1	3.248	0.382	0.539

* *p*-values are two-tailed.

See Table 1 and 2 for variable definitions.

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